

## 2nd quarter 2018 report

### // Overview

› The backdrop in Q2 2018 provided a mixed bag for EEII's portfolio companies. On one hand, the Russian equity market declined in USD terms during the quarter, mainly due to new US sanctions against some public companies. However, rising oil prices provided some support for energy related companies. Meanwhile, EEII's net asset value decreased by 7.2% and finished the quarter at CHF 3.21 (CHF 3.46 on March 30<sup>th</sup>, 2018). During the reporting period, the fair value of the equity holdings decreased by 4.7%.

› EEII's core holding Gazprom (representing 58% of EEII's investments) was again a notable laggard. Compared to its peer group (Rosneft +16%, Lukoil +/- 0%), the company continued its downward drift and lost 9% in value during the quarter, i.e. CHF 212k or CHF 0.14 per share. Our holdings in KAZ Minerals (-4.4% in CHF) and Ukrnafta (2.1%) could not compensate the volatility in Gazprom shares.

### // Investments

#### Portfolio Composition and News:

› There are no changes to report in EEII's portfolio during Q2 2018.

› Gazprom reported Q1 2018 results, which partly reflect the positive price dynamics in the markets for hydrocarbons. Revenues increased 17.8% compared to Q1 2017, the operating profit increased by 59%. On a negative note, results from financial activities were very poor in the reporting period (income - 50%, expenses +102%), which finally resulted in net results for Q1 that improved only by 12%. It is obvious that Gazprom is struggling to capitalize from the positive trends in the energy markets, given heavy political influence and restrictions arising from tightening sanctions.

› During the reporting period, there were no significant news regarding the holdings in the Ukrainian electricity companies to report.

› Ukrnafta published operational and financial results for H1 2018. Production of hydrocarbons declined slightly since the beginning of the year, but the financial results reflected the improved pricing environment for oil. Net revenue was higher by 21.6% at UAH 16.762 bln (UAH 13.781 bln in 2017) and net profit reached UAH 2.061 bln + 54.3% vs. UAH 1.336 bln last year. The company still suffers from insufficient capital spending which is a direct result of the unresolved tax dispute with the government. Ukrnafta paid UAH 7.4 bln in taxes, including UAH 690 mln of the overdue tax debt.

› KAZ Minerals continued to ride its cycle of rising production (140 kt of copper vs. 118 kt in H1 2017) and high copper prices. In fact, the company reported revenues for H1 2018 of USD 1.1 bln (H1 2017 USD 721 mln) and a profit before tax of USD 355 mln compared to USD 240 mln in 2017 (+47.9%). The financial position improved once again, the gearing level was reduced with a net debt to EBITDA ratio of 1.4x (2.0x at the end of 2017).

### // Economic and political environment

› Ukraine's recovery continued in the 2nd quarter 2018 after growth picked up at the outset of the year. Domestic demand appears to have remained robust as inflationary pressures eased and labor market dynamics improved. Additionally, household lending surged in the first half of the year as the banking sector further stabilised. On a less positive note, the government recently extended the gas-price freeze until the beginning of September, once again failing to fulfill one of the IMF's key conditions for releasing another tranche of funding in the coming months. Downside risks remain such as slow reform momentum and mounting political tensions domestically related to the upcoming elections in 2019.

› Russia's incoming data suggests that the economic momentum held up in the 2nd quarter. Higher oil prices are supporting the all-important energy sector. In addition, the unemployment rate remained at a multi-year low in June and retail sales picked up, buoyed by World Cup related spending. Fundamentals look positive for the remainder of the year. That said, high geopolitical uncertainty and the possibility of further economic sanctions remain key risks to the outlook.

#### › Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 7.10	
	› Last payment to the share-holders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)	
Board of directors	› Victor Gnehm (Chairman)	
	› Christoph Offenhäuser	
Advisory fee	Flat fee, payable quarterly	
Share identification	› Valor 716 295	
	› ISIN CH0007162958	
Bloomberg	EEII SW Equity	
Registered office	EEII AG	
	Alpenstrasse 15	
	P.O. Box 7863, 6302 Zug	
CEO	› Marcus H. Bühler	
Advisor	Weissenstein & Partner AG, Zurich	
Administrator	MOORE STEPHENS ZUG AG, Zug	
Custodians	› UBS AG, Zug	
	› PrivatBank, Dnipropetrovsk	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.1	1.75%
Investments		5.6	98.25%
<b>Total assets</b>		<b>5.7</b>	<b>100%</b>
NAV (30/06/18)	3.22	4.9	
NAV (31/03/18)	3.46	5.3	
NAV (31/12/17)	<b>3.54</b>	5.4	
NAV (30/09/17)	3.51	5.4	
NAV (30/06/17)	2.92	4.5	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	9	0.05%
DTEK Dniproenergo	491	25	0.03%
Centrenergo	627	81	0.04%
DTEK Zakhidenergo	849	48	0.08%
Kievenenergo	119	14	0.01%
Ukrnafta	6,068	1,189	0.85%
Cherkasyoblenergo	728	44	0.77%
Dniprooblenergo	255	7	0.02%
DTEK Krimenergo	245	4	0.09%
Volynoblenergo	295	14	0.44%
Zhytomyroblenergo	589	8	0.45%
Gazprom	8,143	3,247	0.00%
KAZ Minerals	288	900	0.02%
<b>Total</b>	<b>19,153</b>	<b>5,590</b>	

\*) As of December 31, 2017 (audited). The fair values of four distribution companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo) are determined by the average of market prices and three fair value models, to which a liquidity discount is applied. The fair value of all other companies are market prices.